

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2006-4-G**

IN RE:

Piedmont Natural Gas	)	
Company's Annual Review of	)	<b>ORDER APPROVING AND ADOPTING</b>
Purchased Gas Adjustment and	)	<b>SETTLEMENT AGREEMENT</b>
Gas Purchasing Policies	)	

The above-captioned matter is before the Public Service Commission of South Carolina (“Commission”) on the Settlement Agreement (“Settlement Agreement”) filed by the Office of Regulatory Staff of South Carolina (“ORS”), South Carolina Energy Users Committee (“SCEUC”), and Piedmont Natural Gas Company, Inc. (“PNG”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

The Commission conducted a formal hearing in this matter on July 19, 2006, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable G. O’Neal Hamilton, Chairman, presiding. Jeffrey M. Nelson, Esquire and C. Lessie Hammonds, Esquire appeared on behalf of ORS. Scott Elliot, Esquire appeared on behalf of SCEUC. James H. Jeffries, IV, Esquire and Kerry B. McTigue, Esquire appeared on behalf of PNG.

At the hearing, upon motions made by Mr. Nelson of ORS and Mr. Jeffries on behalf of PNG, the Commission accepted into the record the pre-filed direct testimony and exhibits of witness Roy H. Barnette and pre-filed direct testimony of witness Carey M. Flynt, the pre-filed surrebuttal testimony of Roy H. Barnette, the pre-filed Settlement Agreement testimony of Carey M. Flynt, all on behalf of the ORS, as well the pre-filed direct testimony and exhibits of witnesses David R. Carpenter, Keith P. Maust and Ann H. Boggs, and the pre-filed rebuttal testimony of witness Ann H. Boggs, all on behalf of PNG. Mr. Barnette’s exhibits were admitted into evidence as composite Hearing Exhibit No. 2. Mr. Maust’s exhibits were admitted into evidence as composite Hearing Exhibit No. 4 and Ms. Boggs’

exhibits were admitted into evidence as composite Hearing Exhibit No. 5. The Commission also accepted into the record the Settlement Agreement, which was designated as Hearing Exhibit No. 1.

At the hearing, the Commission directed PNG to file two late-filed exhibits. Hearing Exhibit No. 6 was to consist of hedging efficiency data and a figure for reduction in rates resulting from the proposed removal of uncollectible gas costs from base rates. Hearing Exhibit No. 7 was to be a copy of Piedmont's service regulations on uncollectible account policies. The Commission's records in this docket reflect that late-filed Hearing Exhibits Nos. 6 and 7 were filed on July 25, 2006.

All counsel present at the hearing acknowledged their respective clients' consent to the terms of the Settlement Agreement. Further, the Parties represented that they "have each determined that their interest and the public interest would be best served by settling the above captioned case . . . ."[See Hearing Exhibit No. 1 at p.2]. Moreover, ORS presented witness Carey M. Flynt who explained the terms of the Settlement Agreement and testified that the Settlement Agreement was in the public interest. A copy of the Settlement Agreement is attached hereto as Order Exhibit No. 1 and is hereby incorporated into and made part of this Order.

In addition to testifying that the Settlement Agreement was in the public interest, Ms. Flynt also summarized her pre-filed direct testimony and the findings of ORS. More specifically, she testified that ORS conducted an extensive audit of PNG's gas costs for the period April 1, 2005 through March 31, 2006 ("Review Period"). ORS concluded, based on the testimony of ORS Witnesses Roy H. Barnette and Carey M. Flynt, and PNG's adoption of Mr. Barnette's accounting adjustments, that (i) PNG's gas purchasing policies and practices were reasonable and prudent, (ii) that the Company had properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review period; and (iii) PNG managed its hedging program during the review period in a reasonable and prudent manner consistent with Commission orders.

Ms. Flynt also testified that the Parties had agreed to adopt the accounting adjustments proposed in the direct testimony of Mr. Barnette. These adjustments decreased the end-of-period under-collection in account #253.04 by \$259,259 from Ms. Bogg's end-of-period balance of (\$15,133,277) to Mr. Barnette's end-of-period balance of (\$14,874,018). The specific accounting adjustments proposed by Mr. Barnette, and agreed to by the parties, include the following:

- a) a cumulative reduction of \$19,929 attributable to Billed/Filed adjustments for December, 2005 and January, 2006;
- b) a cumulative increase of (\$27,405) attributable to various Proration Adjustments for April, and September through November, 2005 to correct the number of dekatherms used in this adjustment during these months;
- c) a reduction of \$292,851 attributable to a true-up of interest on gas cost account #253.04;
- d) an increase of (\$18,913) attributable to negotiated loss adjustments; and
- e) an increase of (\$7,203) attributable to an adjustment in secondary market revenues.

After taking these adjustments into effect, the end-of-period balance in account #253.04, not including the effects of hedging activities, is an under-collection of (\$14,874,018).

Ms. Flynt also testified to several other matters raised in the Parties' testimony and agreed to by the Parties in the Settlement Agreement. These included agreements that:

- a) effective November 1, 2006, the commodity cost of gas attributable to uncollected accounts would be removed from base rates and recorded in and collected through account #253.04 in order to ensure the recovery of actual uncollectible expenses rather than estimates of those expenses;

- b) effective November 1, 2006, cumulative hedging gains or losses would be accounted for under account #253.04 by transferring the balance of such gains or losses to account #253.04 on a monthly basis;
- c) effective November 1, 2006, the interest rate applicable to balances in account #253.04 shall be fixed at 7.0%; and
- d) PNG would ensure timely and accurate reconciliation of physical LNG inventory levels with LNG inventory levels recorded in PNG's gas cost accounting system on a going forward basis.

ORS witness Barnette also testified at the hearing. Mr. Barnette discussed the ORS' audit of account #253.04 and his proposed accounting adjustments. He also discussed the proposed change in interest rate applicable to account #253.04 and the proposed change in methodology for accounting for hedging gains and losses.

PNG witnesses Carpenter, Maust, and Boggs all presented testimony at the hearing. Their testimony was consistent with and supported the testimony of the ORS witnesses, specifically in regard to the adjustments to account #253.04 and the additional matters set forth in the Settlement Agreement.

No other witnesses presented testimony in this proceeding.

After careful review and consideration of the Settlement Agreement, the evidence of record, and the representations of counsel, the Commission concludes as a matter of law that approval of the Settlement Agreement is in the public interest and that based on the testimony of ORS witnesses Barnette and Flynt, and the adoption of the accounting adjustments proposed by Mr. Barnette, (i) PNG's gas purchasing policies and practices during the review period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the review period, and (iii) PNG managed its hedging program during the review period

in a reasonable and prudent manner consistent with Commission Orders. The Commission further concludes that the proposed changes to the manner in which uncollectible gas costs are recorded and recovered by PNG, the manner in which hedging gains and losses are accounted for, and the interest rate applicable to PNG's gas cost account #253.04 are just and reasonable and in the public interest and should be approved.

NOW THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The Settlement Agreement attached hereto as Order Exhibit No. 1 is accepted into the record without objection and is incorporated into and made part of this Order by reference. Further the Settlement Agreement is found to be in the public interest and constitutes a reasonable resolution of this proceeding.

2. The pre-filed direct testimony and exhibits of PNG witnesses David R. Carpenter, Keith P. Maust and Ann H. Boggs and the pre-filed rebuttal testimony of PNG witness Ann H. Boggs are accepted into the record without objection.

3. The pre-filed direct testimony and exhibits of ORS witness Roy H. Barnette and direct testimony of ORS witness Carey M. Flynt are accepted into the record without objection as are the pre-filed surrebuttal testimony of Roy. H. Barnette and the Settlement Testimony of Carey M. Flynt.

4. PNG's gas purchasing policies and practices during the Review period were reasonable and prudent.

5. PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the review period.

6. PNG managed its hedging program during the review period in a reasonable and prudent manner consistent with Commission Orders.

7. The accounting adjustments proposed by ORS witness Roy H. Barnette are adopted as follows:

PNG's deferred cost gas account #253.04 is adjusted from an under-collection of (\$15,133,277) to the adjusted balance of an under-collection of (\$14,874,018):

- a) a cumulative reduction of \$19,929 attributable to Billed/Filed adjustments for December, 2005 and January, 2006;
- b) a cumulative increase of (\$27,405) attributable to various Proration Adjustments for April, and September through November, 2005 to correct the number of dekatherms used in this adjustment during these months;
- c) a reduction of \$292,851 attributable to a true-up of interest on gas cost account #253.04;
- d) an increase of (\$18,913) attributable to negotiated loss adjustments; and
- e) an increase of (\$7,203) attributable to an adjustment in secondary market revenues.

8. Effective November 1, 2006, PNG is authorized to remove \$867,769 in uncollectible gas cost expense from its base rates and to record its actual uncollectible gas costs expense in its account #253.04 on an ongoing basis in the manner proposed by PNG witness Carpenter;

9. Effective November 1, 2006, PNG is authorized to transfer the balance of its cumulative hedging gains or losses to account #253.04 on a monthly basis in the manner proposed by ORS witness Barnette;

10. Effective November 1, 2006, the interest rate applicable to balances in PNG's account #253.04 shall be fixed at 7.0%;

11. PNG is to ensure timely and accurate reconciliation of physical LNG inventory levels with LNG inventory levels recorded in PNG's gas cost accounting system on a going forward basis.

12. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

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G. O'Neal Hamilton, Chairman

ATTEST:

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C. Robert Moseley, Vice-Chairman

(SEAL)